

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Tecumseh District Library	County Lenawee
Fiscal Year End 6/30/06	Opinion Date 7/25/06	Date Audit Report Submitted to State 10/20/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	NA	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA		License Number 1101024055

**Tecumseh District Library
Tecumseh, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Tecumseh District Library

Tecumseh, Michigan

BOARD OF TRUSTEES

June 30, 2006

Ms. Anne Walker	President
Ms. Nancy Smith	Vice-President
Ms. Susan Gilmore	Secretary
Ms. Barb Hoeffner	Treasurer
Ms. Carolyn Feldkamp	Trustee
Ms. Geeta Kandpal	Trustee
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Tecumseh District Library

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Tecumseh District Library
Tecumseh, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Tecumseh District Library as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tecumseh District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Tecumseh District Library as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 25, 2006

Tecumseh District Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The management's discussion and analysis of Tecumseh District Library's (the Library) financial report provides an overview of the Library's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Library's financial statements which follow this section.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's General Fund.

Statement of Net Assets/Statement of Activities

The following table shows, in a condensed format, the Library's net assets in comparison to the previous year:

	June 30, 2006	2005	Increase (Decrease) from Prior Year
Assets			
Current and other assets	\$ 1,959,723	\$ 1,674,911	\$ 284,812
Capital assets	<u>2,319,228</u>	<u>2,266,696</u>	<u>52,532</u>
Total assets	4,278,951	3,941,607	337,344
Liabilities			
Current liabilities	<u>14,175</u>	<u>11,663</u>	<u>2,512</u>
Net Assets			
Invested in capital assets	2,319,228	2,266,696	52,532
Restricted for permanent endowment	145,335	100,294	45,041
Unrestricted	<u>1,800,213</u>	<u>1,562,954</u>	<u>237,259</u>
Total net assets	<u>\$ 4,264,776</u>	<u>\$ 3,929,944</u>	<u>\$ 334,832</u>

The net assets of the Library increased by \$334,832 in the current year and were \$4,264,776 at year end.

Tecumseh District Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The following table shows the changes of the net assets:

	June 30,		Increase (Decrease) from Prior Year
	2006	2005	
Revenue			
Property taxes	\$ 657,632	\$ 631,060	\$ 26,572
Penal fines	99,922	99,410	512
Other	<u>158,987</u>	<u>133,291</u>	<u>25,696</u>
Total revenue	916,541	863,761	52,780
Expenses	<u>581,709</u>	<u>527,723</u>	<u>53,986</u>
Changes in Net Assets	<u>\$ 334,832</u>	<u>\$ 336,038</u>	<u>\$ (1,206)</u>

The Library's revenues increased by \$52,780 in the current year. The increase was a result of increases in property tax revenue and operating contributions in the current year. Property taxes increased due to an increase in taxable values of property. Operating contributions increases arose from donations received by the Library during the current year.

The Library's expenses increased by \$53,986 in the current year. The increase was primarily due to an upgrade of staff computers as well as additional computers for the public. In addition, two new professional positions, Teen Services Librarian and Reference/Local Historian Librarian, were filled during this year.

The Library's Fund

The Library's only fund is the General Fund. Included in the assets of the General Fund are an endowment checking account and an endowment investment account. These accounts represent funds donated to the Library, which the Library Board has committed to using within certain self-imposed guidelines. Also included in the assets of the General Fund is the Herrick book permanent endowment investment account. This account was established in October 2004 with funds donated to the Library by the Herrick Foundation in memory of Kenneth G. Herrick. The principal donation of \$100,000 is permanently restricted and the investment earnings from the permanent endowment are to be spent on books for the Library.

Budgetary Highlights

On June 22, 2006, the Library amended the budget to adjust for various events that occurred during the year. The main items adjusted in the amended budget were revenues and capital outlay. These adjustments were necessary because of changes in taxable values and interest rates as well as capital projects that were not originally budgeted for.

Capital Asset and Debt Administration

At June 30, 2006, the Library had approximately \$2.3 million (net of depreciation) invested in capital assets. During the current year, the Library purchased the following significant capital asset items: new shades for the Library's many windows, a security system, and an upgraded fire alarm system, as well as additional library materials (books, software, and audio-visual materials).

The Library has no long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Economic Factors and Next Year's Budget

During the course of the 2006-2007 fiscal year, the Library will be doing an extensive up-grade to the existing parking lot. New lighting, widening of the west entrance and replacement of most of the asphalt will be the highlights of this job. At the same time the entrance to the Library will be renovated. The sidewalk, ramp and steps leading to the main doors will be replaced. Other improvements to the Library include a possible overhaul of the Library's interior lighting.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director's Office.

BASIC FINANCIAL STATEMENTS

Tecumseh District Library
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 294,823
Due from other governmental units	106,137
Prepays	<u>14,063</u>
Total current assets	415,023
Noncurrent assets	
Cash and cash equivalents - restricted	1,403
Investments	1,399,365
Investments - restricted	143,932
Capital assets not being depreciated	348,000
Capital assets being depreciated, net	<u>1,971,228</u>
Total noncurrent assets	<u>3,863,928</u>
TOTAL ASSETS	4,278,951
LIABILITIES	
Current liabilities	
Accounts payable	5,200
Other accrued liabilities	<u>8,975</u>
Total current liabilities	<u>14,175</u>
NET ASSETS	
Invested in capital assets	2,319,228
Restricted for permanent endowment	145,335
Unrestricted	<u>1,800,213</u>
TOTAL NET ASSETS	<u>\$ 4,264,776</u>

See accompanying notes to financial statements.

Tecumseh District Library
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Recreation and cultural	<u>\$ 581,709</u>	<u>\$ 16,846</u>	<u>\$ 107,047</u>	\$ (457,816)
General revenues				
Property taxes				657,632
State aid - unrestricted				12,382
Penal fines				99,922
Investment earnings				<u>22,712</u>
Total general revenues				<u>792,648</u>
Change in net assets				334,832
Net assets, beginning of the year				<u>3,929,944</u>
Net assets, end of the year				<u>\$ 4,264,776</u>

See accompanying notes to financial statements.

Tecumseh District Library

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2006

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 294,823
Cash and cash equivalents - restricted	1,403
Investments	1,399,365
Investments - restricted	143,932
Due from other governmental units	106,137
Prepays	<u>14,063</u>
TOTAL ASSETS	<u>\$ 1,959,723</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 5,200
Accrued liabilities	<u>8,975</u>
TOTAL LIABILITIES	14,175
FUND BALANCE	
Reserved for	
Prepays	14,063
Permanent endowment	145,335
Unreserved	
Designated for endowment	702,833
Designated for property tax budget year	321,753
Undesignated	<u>761,564</u>
TOTAL FUND BALANCE	<u>1,945,548</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,959,723</u>

See accompanying notes to financial statements.

Tecumseh District Library

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental fund **\$ 1,945,548**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 2,657,493	
Accumulated depreciation is	<u>(338,265)</u>	
Capital assets, net		<u>2,319,228</u>

Net assets of governmental activities **\$ 4,264,776**

See accompanying notes to financial statements.

Tecumseh District Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND

Year Ended June 30, 2006

	General
REVENUES	
Property tax	\$ 657,632
Penal fines	99,922
State aid	12,382
Photocopy/fax fees	2,940
Fines and fees	13,906
General investment income	26,520
Gifts	107,047
Endowment investment income	35,223
Realized and unrealized losses on investments	(39,031)
	<hr/>
TOTAL REVENUES	916,541
EXPENDITURES	
Recreation and cultural	
Current	
Salaries	281,736
Employee insurance	70,970
Staff development	6,784
Collections	83,738
Office	11,490
Programs and events	5,043
Professional services	26,528
Insurance	1,893
Communications	3,386
Utilities and services	20,361
Cleaning and maintenance	15,370
Capital outlay	106,942
	<hr/>
TOTAL EXPENDITURES	634,241
EXCESS OF REVENUES OVER EXPENDITURES	282,300
Fund balance, beginning of year	<hr/> 1,663,248
Fund balance, end of year	<hr/> <hr/> \$ 1,945,548

See accompanying notes to financial statements.

Tecumseh District Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - governmental fund \$ 282,300

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 182,453	
Depreciation expense	<u>(129,921)</u>	
Excess of capital outlay over depreciation expense		<u>52,532</u>

Change in net assets of governmental activities \$ 334,832

See accompanying notes to financial statements.

Tecumseh District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Library was created on December 20, 2002 through a District Library Agreement entered into by the Tecumseh Public School District (the "School District") and the City of Tecumseh (the "City"); however, until June 30, 2003, the School District was responsible for all expenses of the Library and the Library continued to be reported as a fund of the School District.

On July 1, 2003, the Library became an independent district library. The Library services a portion of the residents of the Townships of Adrian, Franklin, Macon, Raisin, Ridgeway, and Tecumseh, as well as the City of Tecumseh. The Library is governed by a seven-member board elected from the Library District.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Tecumseh District Library. The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Library as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's major fund.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources. General fund activities are financed by revenue from general property taxes, penal fines, and other sources.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

Budgets shown as required supplementary information were prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted and as amended by the Library Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of a checking account and savings accounts, as well as certificates of deposit with an original maturity of 90 days or less.

A portion of the cash and investments are classified as restricted cash because their use is limited. The General Fund's restriction is related to the permanent endowment.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments - continued

Investments include fixed income securities and certificates of deposit with an original maturity greater than 90 days from the date of purchase. All investments are stated at market value.

7. Prepays

Prepays consist of expenditures representing costs applicable to future periods. These prepaids recorded in the governmental fund do not reflect current expendable resources and therefore, an equal portion of fund balance is reserved.

8. Receivables

Receivables consist of State aid, penal fines, and amounts due from other governmental units.

9. Property Taxes

Property tax receivable is shown as net of an allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each December 1 on the taxable valuation of the property as of the preceding December 31. Taxes are considered delinquent on February 28, at which time penalties and interest are assessed.

The 2005 taxable valuation of the communities included in the Library District totaled approximately \$560,936,705, on which ad valorem taxes levied consisted of 1.1472 mills for the Library's operating purposes. The ad valorem taxes levied based on this were approximately \$643,000. This amount, net of adjustments for board of review adjustments, Michigan Tax Tribunal adjustments, and personal property taxes returned delinquent, is recognized in the General Fund as tax revenue.

Since the Library's fiscal year covers the period from July 1 through the following June 30, as of the end of the fiscal year, the Library board has designated one-half of the December 1 levy to be used to finance the operations of the first half of the ensuing fiscal year. Accordingly, \$321,753 of property taxes related to the December 1 levy is reported as "designated for property tax budget year".

10. Capital Assets

Capital assets include land, buildings, equipment, and collections and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in the governmental funds and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	15 - 30 years
Library materials	3 - 5 years
Furniture, fixtures, and equipment	5 - 10 years

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Tecumseh District Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Tecumseh District Library.

As of June 30, 2006, the carrying amount of the Library's deposits was \$1,136,530 and the bank balance was \$1,144,570 of which \$301,403 was covered by Federal depository insurance. The balance of \$843,167 was uninsured and uncollateralized. The cash and cash equivalents caption in the basic financial statements includes \$160 in imprest cash.

Investments

As of June 30, 2006, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments caption in the financial statements are as follows:

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uninsured and unregistered for which the securities are held by the Library's agent in the Library's name -			
Federal Home Loan Mortgage notes	\$ 438,197	\$ 438,197	5.5 years
Federal Farm Credit notes	47,336	47,336	10 years
Federal National Mortgage Association notes	<u>217,300</u>	<u>217,300</u>	5.5 years
	<u>\$ 702,833</u>	<u>\$ 702,833</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the Library's investments in the United Bank & Trust were rated Aaa by Standard and Poor's.

Interest rate risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Library has not adopted a policy that indicates how the Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 294,823
Cash and cash equivalents - restricted	1,403
Investments	1,399,365
Investments - restricted	<u>143,932</u>
	<u>\$ 1,839,523</u>

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Tecumseh District Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated				
Land	\$ 348,000	\$ -	\$ -	\$ 348,000
Capital assets being depreciated				
Building and improvements	1,842,561	90,138	-	1,932,699
Library materials	151,290	75,251	-	226,541
Furniture, fixtures, and equipment	<u>133,189</u>	<u>17,064</u>	<u>-</u>	<u>150,253</u>
Subtotal	2,127,040	182,453	-0-	2,309,493
Less accumulated depreciation				
Building and improvements	(119,419)	(69,811)	-	(189,230)
Library materials	(47,143)	(32,108)	-	(79,251)
Furniture, fixtures, and equipment	<u>(41,782)</u>	<u>(28,002)</u>	<u>-</u>	<u>(69,784)</u>
Subtotal	<u>(208,344)</u>	<u>(129,921)</u>	<u>-0-</u>	<u>(338,265)</u>
Net capital assets being depreciated	<u>1,918,696</u>	<u>52,532</u>	<u>-0-</u>	<u>1,971,228</u>
Net capital assets	<u>\$ 2,266,696</u>	<u>\$ 52,532</u>	<u>\$ -0-</u>	<u>\$ 2,319,228</u>

NOTE D: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedule presented as required supplementary information, the Library's budgeted expenditures in the General Fund have been shown at the account level. The approved budgets of the Library have been adopted at the account level.

During the year ended June 30, 2006, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Staff expenditures			
Children's services librarian	\$ 37,329	\$ 37,523	\$ 194
Library assistants	53,557	59,287	5,730
Wages in lieu of health insurance	-	2,000	2,000
Operating expenditures			
Office supplies	4,300	5,120	820
Co-op fees	9,938	9,960	22
Capital outlay			
Land improvements	52,512	52,716	204

Tecumseh District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or have been legally segregated for a specific future use.

The following are the fund balance reserves as of June 30, 2006:

Reserved for prepaids	\$ 14,063
Reserved for permanent endowment	<u>145,335</u>
	<u>\$ 159,398</u>

Designated fund balance is used to earmark a portion of fund balance to indicate that it is not available for expenditure due to being segregated for a specific future use.

The following are the fund balance designations as of June 30, 2006:

Designation for permanent endowment	\$ 702,833
Designated for property tax budget year	<u>321,753</u>
	<u>\$ 1,024,586</u>

NOTE F: RISK MANAGEMENT

The Library is exposed to various risks of loss for liability, property, employee dishonesty, workers' compensation, and employer's liability for which the Library carries commercial insurance.

NOTE G: EMPLOYEE RETIREMENT PLANS

Plan Description - Certain employees of the Library who were originally employed by the School District are eligible to participate in the Michigan Public Schools Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, Michigan, 48909.

Funding Policy - Employer contributions to the system are the result of implementation of the Finance Reform Act. Under these procedures, participating employers are required to contribute the full actuarial funding contribution amount to fund pension benefits.

The pension rate totaled 14.87 percent for the period July 1, 2005 through September 30, 2005, and 16.34 percent from the period October 1, 2005 through June 30, 2006 of the covered payroll plan. Basic plan members are required to contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The Library's contributions totaled \$13,273 and basic plan members contributed \$3,118 for the year ended June 30, 2006, which equaled the required contributions in accordance with the requirements above. The Library made 100 percent of the required contributions in the current year and each of the two (2) preceding years.

The Library sponsors a defined contribution plan covering all full-time employees hired after July 1, 2004 and not covered under the MPERS plan. The plan, commonly known as a 403(b) plan, allows for contributions from both the employer and the employee. The Library is required to contribute 5 percent of the covered payroll of the plan. Basic plan members are not required to make contributions. The Library's contributions totaled \$5,620 for the year ended June 30, 2006, which equaled the required contribution in accordance with the requirements above.

Tecumseh District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that there are restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

Governmental activities	
Restricted for	
Permanent endowment	<u>\$ 145,335</u>

REQUIRED SUPPLEMENTARY INFORMATION

Tecumseh District Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property tax	\$ 608,571	\$ 624,218	\$ 657,632	\$ 33,414
Penal fines	85,000	85,000	99,922	14,922
State aid	8,000	12,335	12,382	47
Photocopy/fax fees	1,800	2,700	2,940	240
Fines and fees	10,000	13,500	13,906	406
General investment income	4,700	26,500	26,520	20
Gifts	2,000	2,000	107,047	105,047
Book endowment income	-	6,200	-	(6,200)
Endowment investment income	-	-	35,223	35,223
Realized and unrealized losses on investments	-	-	(39,031)	(39,031)
Total revenues	720,071	772,453	916,541	144,088
EXPENDITURES				
Staff expenditures				
Salaries				
Director	56,000	56,000	56,000	-0-
Adult services librarian	36,050	36,050	36,050	-0-
Children's services librarian	37,329	37,329	37,523	(194)
Teen services librarian	32,000	32,000	12,923	19,077
Technical services supervisor	27,974	27,974	27,974	-0-
Reference librarian	22,045	22,045	15,212	6,833
Building engineer	22,012	22,012	20,623	1,389
Library assistants	53,557	53,557	59,287	(5,730)
Administrative assistant	12,714	12,714	12,193	521
Page	3,307	3,307	1,951	1,356
Wages in lieu of health insurance	-	-	2,000	(2,000)
Total salaries	302,988	302,988	281,736	21,252
Employee insurance				
Life	1,286	1,286	776	510
Health	38,290	38,290	21,703	16,587
Dental	1,756	1,756	1,473	283
Vision	343	343	288	55
Disability	5,317	5,317	3,107	2,210
Workers' compensation	1,900	3,020	1,297	1,723
Payroll taxes	31,359	31,359	23,066	8,293
Retirement	19,843	19,843	19,260	583
Total employee insurance	100,094	101,214	70,970	30,244
Staff development				
Professional memberships	3,000	3,000	2,095	905
Travel	3,500	3,500	2,696	804
Training	2,000	2,000	1,624	376
Recruitment	500	500	369	131
Total staff development	9,000	9,000	6,784	2,216
Total staff expenditures	412,082	413,202	359,490	53,712

Tecumseh District Library

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

EXPENDITURES (CONTINUED)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating expenditures				
Collections				
Books	\$ 75,000	\$ 75,000	\$ 53,777	\$ 21,223
Periodicals	12,000	12,700	12,526	174
Audio-visual	10,000	10,000	8,948	1,052
Software - public use	5,800	5,800	1,893	3,907
Software - staff use	5,100	5,100	2,613	2,487
Leased materials	3,000	3,000	-	3,000
Replacement materials	200	200	119	81
Binding	300	300	-	300
Processed materials	3,000	4,000	3,862	138
Total collections	114,400	116,100	83,738	32,362
Office				
Office supplies	4,000	4,300	5,120	(820)
Postage	2,000	2,200	2,006	194
Printing and publishing	500	500	125	375
Portfolio management fees	3,500	3,400	3,295	105
Bank fees	-	50	14	36
Public relations	2,000	2,000	930	1,070
Total office	12,000	12,450	11,490	960
Programs and events				
Program supplies	3,500	4,000	3,384	616
Event supplies	1,000	1,100	1,025	75
Advertising	3,000	3,000	634	2,366
Total programs and events	7,500	8,100	5,043	3,057
Professional services				
Legal	1,500	1,500	-	1,500
Bookkeeping	11,000	11,000	10,343	657
Audit	5,500	6,225	6,225	-0-
Co-op fees	4,000	9,938	9,960	(22)
Total professional services	22,000	28,663	26,528	2,135
Insurance				
Liability insurance	4,408	4,408	1,898	2,510
Property insurance	5,389	6,050	(38)	6,088
Auto insurance	1,803	1,700	33	1,667
Special event insurance	500	500	-	500
Total insurance	12,100	12,658	1,893	10,765

Tecumseh District Library

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (CONTINUED)				
Operating expenditures (continued)				
Communications				
Telephone	\$ 3,500	\$ 3,500	\$ 3,386	\$ 114
Internet	100	100	-	100
Total communications	3,600	3,600	3,386	214
Utilities and services				
Electric	14,000	16,000	13,954	2,046
Gas	8,000	2,500	2,290	210
Water and sewer	1,800	1,800	1,141	659
Trash collection	700	700	676	24
Snow removal	1,000	2,300	2,300	-0-
Total utilities and services	25,500	23,300	20,361	2,939
Cleaning and maintenance				
Cleaning supplies	600	600	319	281
Maintenance supplies	1,500	2,250	2,227	23
Building maintenance	5,000	5,000	3,281	1,719
Grounds maintenance	1,000	1,700	1,478	222
Equipment maintenance	10,000	10,000	7,728	2,272
Vehicle	2,400	2,400	337	2,063
Total cleaning and maintenance	20,500	21,950	15,370	6,580
Total operating expenditures	217,600	226,821	167,809	59,012
Capital outlay				
Land improvements	-	52,512	52,716	(204)
Building	-	38,000	36,241	1,759
Equipment	-	20,000	17,985	2,015
Undistributed	7,389	21,918	-	21,918
Total capital outlay	7,389	132,430	106,942	25,488
TOTAL EXPENDITURES	637,071	772,453	634,241	138,212
EXCESS OF REVENUES OVER EXPENDITURES	83,000	-0-	282,300	282,300
Fund balance, beginning of year	1,663,248	1,663,248	1,663,248	-0-
Fund balance, end of year	\$ 1,746,248	\$ 1,663,248	\$ 1,945,548	\$ 282,300

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MANAGEMENT LETTER

To the Board of Trustees
Tecumseh District Library
Tecumseh, Michigan

As you know, we have recently completed our audit of the records of the Tecumseh District Library as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal controls and our discussions with management. These weaknesses are not considered reportable conditions in relation to the basic financial statements of the Tecumseh District Library but may be areas of possible improvement.

1. The Board should adopt an investment policy that addresses the risk disclosures described in GASB Statement No. 40.

The Governmental Accounting Standards Board (GASB) recently issued a statement related to investment risks (GASB Statement No. 40). GASB 40 requires certain disclosures related to investment risk and suggests that governments adopt additional policies with respect to how these risks are to be addressed.

During the course of our audit and through discussions with administration, it was noted that the Library's policy did not address some of the investment risks described in GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Library. These resources are necessary for the delivery of the Library's services and programs. Effective for the year ended June 30, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Library's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, and interest rate risk. Such policies are required to be disclosed in the notes to the Library's financial statements by GASB Statement No. 40.

2. The Library should establish a dollar threshold to record significant assets purchased.

During the course of our audit, we noted that the Library does not have a policy in place to specify a dollar threshold to define long-lived assets that would be capitalized and depreciated in the financial statements.

Governmental Accounting Standards Board Statement No. 34 (GASB 34) allows each government to define for itself which assets are significant enough to be capitalized and depreciated for the financial statements.

We suggest the Library adopt a capitalization policy that would define assets that are to be included in the financial statements as capital assets.

3. Authorization for disbursements should be retained for audit purposes.

As we tested the Library's disbursement procedures, we noted the "payment authorization" form sent to the contracted accountant is not retained as support in the Library's files.

The Library processes a payment authorization form for each invoice which is filled out and sent to the outside accountant along with a copy of the invoice. This form is not retained by the Library as evidence of the authorization for payment.

We suggest the Library copy the payment authorization form and include it as part of the voucher package (invoice, check stub and authorization form) that is retained for audit purposes.

4. The Board of Trustees should consider adopting additional administrative policies and procedures.

Based on our discussions with management, we noted that the Board of Trustees has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. This documentation also helps to provide greater internal control in those areas of operation. Specifically, we suggest that the Board develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Board adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Library and detail how the Library would continue to operate in the absence of those critical areas of operation.
- b. Code of conduct - We suggest the Board adopt a code of conduct. The code should include a policy on conflicts of interest and the Board should require members and key employees to periodically make a declaration of compliance.
- c. Personnel policy - We suggest the Board review their personnel policies. The Library's policy should require background checks to be conducted on all potential employees. The policy should also require mandatory vacations for employees in positions of financial trust, with those duties performed by another employee during that absence.
- d. Accounting policies and procedures manual - We suggest the Library formally document any accounting procedures that are currently in place and supplement this with any Board policies that may be required to support those procedures.
- e. Fraud prevention policy - A policy on fraud prevention should define the scope of the policy and include a definition of actions constituting fraud and the appropriate procedures to follow when reporting fraud or suspicions of fraud.

5. Records detailing authorized rates of pay should be retained for audit purposes.

During our analysis of the Library's payroll process, we noted that the Library did not maintain complete records supporting authorized rates of pay for all employees. There was one (1) employee on the Library's payroll through November 2005 whose pay rate was not listed on the authorized rate list for fiscal year 2005-2006.

We suggest that the Library maintain written records of authorized pay rates for all employees on the Board approved list or in the personnel files.

6. Investments should be stated at fair market value.

During our analysis of the Library's investments, we noted that the Library did not carry their investments at fair market value in accordance with generally accepted accounting principles. The investments were initially shown at their historical cost before being adjusted to market value.

Generally accepted accounting principles state that investments should be adjusted and stated at fair market value in order to have an accurate depiction of the actual value. Although a statement for the investments is provided to the contracted accountant, the investments were not adjusted to reflect fair market value before the audit commenced. This gain/loss to bring the investments to fair market value was suggested as an audit adjustment.

We suggest that the Library periodically adjust the investments from cost to fair market value.

7. Budgets should be monitored and amended when necessary.

As noted in the basic financial statements, some of the activities of the Library exceeded the amounts appropriated.

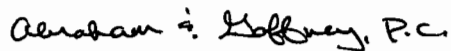
The Michigan Public Act 621 of 1978, as amended, provides that the Library adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Library monitor expenditures against adopted budgets and make appropriate budget amendments in a timely fashion.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated July 25, 2006.

This report is intended solely for the information of management and members of the Board of Trustees of the Tecumseh District Library and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation to us during our audit. We are available to discuss any issues with you and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 25, 2006